



Numis Listed Private Equity News - Numis Sales Desk

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By James Glass

RIT Capital* – Even more focused on managing risk

This morning Sir James Leigh-Pemberton has made his first RIT Capital Chairman's statement taking over from an exceptional leader in Lord Jacob Rothschild. Sir James pays tribute to Jacob and the RIT Board for "ensuring that a carefully constructed transition plan was in place" and in particular the establishment and cultivation of a management team led by Francesco Goedhuis (CEO) and Ron Tabbouche (CIO).

Sir James highlights that we find ourselves in the 11th year of this market cycle and whilst RIT is comfortable with its core positions as well as uncovering areas of opportunity, the environment necessitates an even greater focus on maintaining disciplined investment approach and rigorous portfolio construction. This is also emphasised by Francesco who says *"As we enter 2020, we are cognisant that interest rates remain very low, which for some investors, makes equities the 'only show in town'. Our view is that a significant amount of good news is already priced in, and the market is unlikely to show resilience against any sustained macro or geopolitical volatility. Furthermore, after such a strong run in many of our structural themes we are, if anything, more focused on managing risk rather than adding exposure."*

RIT Capital informed us of their December NAV of 2,004pps in early February, and therefore the 12% return generated by the portfolio in 2019. The January NAV for RIT was 1,987pps.

RIT maintained its defensive portfolio positioning over 2019 with an emphasis on capital preservation. The double-digit returns were achieved with prudent net quoted equity exposure averaging 43% over the year. Interestingly, RIT started 2019 with a somewhat higher quoted exposure following the 2018 sell-off, reducing its hedges, although as RIT observed clearer indicators of a slowdown during the latter part of the year overall exposure to market risk was reduced. The **Quoteds** contributed a return of 12.7% in 2019 compared to -6.3% in 2018. During the year Helios Towers came

to public markets at 115p, which was broadly in-line with RIT's holding value, and ended the year at 158pps.

Private Investments represent 25% of RIT's net assets; comprised 15% in third-party funds and 10% in directly held investments. Private investments generated a return of 2.4% in the year (2018: 4.9%). New investments included \$50m in KeepTruckin, a US based freight logistics and brokerage business. As I am sure you know, we are at a pivotal moment in freight – the business of moving is a highly fragmented and disorganised market ripe for disruption. \$10m was also invested in Credit Karma (US/UK financial data platform) which has most recently received a \$7.1bn from Intuit. Modest amounts of capital were also deployed into a number of exciting, early stage venture opportunities. The largest direct unquoted Acorn continues to perform well. Third-party funds include Thrive Capital, Iconiq, BDT and Hillhouse.. The majority of private funds are valued are marked at the GP's September marks.

Absolute Return and Credit represents 23% of net assets and its contribution was slightly ahead of the previous years at 0.7%. Funds in this strategy includes Eisler Capital (macro manager), Attestor (distressed debt specialist) and Elliott International. Dislocations in emerging market debt subdued the returns of some of the funds RIT is invested in.

2019 was an eventful year for currencies and in particular for Sterling. After dropping by around 6% against the dollar in the first 8 months of the year, it recovered (and more) in the last four months of the year to end as the second best performing G10 currency. RIT Capital's Sterling exposure increased to 69% at 31 December 2019 from 44% a year earlier, the highest for more than a decade. Currency proved to be a drag on performance in 2019 with a negative contribution of 3% in the year.

Dividend - For 2020, RIT Capital is intending to pay a dividend of 35 pence per share, an increase of 2.9% over the previous year. This will be paid in two equal instalments of 17.5 pence per share in April and October.

RIT Capital has an exceptional long term track record through an unconstrained investment approach seeking to deliver long-term capital growth, whilst preserving shareholders' capital.

Since inception in 1988, it has delivered an attractive return profile, participating in 73% of market upside, but only 38% of market declines. This has resulted in the NAV total return compounding at

10.9% pa, significantly ahead of global equity markets - the MSCI AC World and FTSE All Share have delivered annualised Sterling total returns of 8.6% and 8.2%, respectively.

RIT Capital (£3bn market cap) remains one of our core long term recommendations within the Global Investment Companies sector. We believe that the fund's emphasis on capital protection fits well with the risk tolerance of many private investors. In addition, we believe that the team, supported by its connections to leading third-party managers, is well placed to exploit opportunities that arise across a range of asset classes on a global basis.

Note:

All prices, NAVs and discounts as at close of business at 2 March 2020 unless otherwise stated.

** Denotes that this company is a corporate broking client of Numis Securities.*